



## ADS Chapter 591

# Financial Audits of USAID Contractors, Recipients, and Host Government Entities

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**Functional Series 500 – Management Services****ADS 591 – Financial Audits of USAID Contractors, Recipients, and Host Government Entities**

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## ADS 591 – Financial Audits of USAID Contractors, Recipients, and Host Government Entities

### 591.1 OVERVIEW

Effective Date: 12/04/1998

The chapter provides the policy directives and required procedures for planning and conducting financial audits of USAID-funded contractors, recipients, and host government entities.

### 591.2 PRIMARY RESPONSIBILITIES

Effective Date: 07/31/2012

- a. **The Administrator** ensures that management officials throughout USAID understand the value of the audit process and are responsive to audit recommendations.
- b. **USAID/Washington Audit Management Officers (AMOs)** maintain an inventory of foreign organizations receiving USAID/Washington administered awards issued for the AMO's bureau and ensure that these organizations are included in the consolidated audit inventory of foreign organizations receiving USAID/Washington Administered awards that are maintained by the Bureau for Management, Office of Acquisition and Assistance, Cost Audit and Support Division (M/OAA/CAS).
- c. **Mission Audit Management Officers (AMOs)**
  - Develop and maintain the Mission's annual audit inventory;
  - Assess, in collaboration with the Agreement/Contracting Officer, risks to decide when to conduct audits of foreign-based contractors; and,
  - Coordinate with the Regional Inspector General (RIG), Management Action Official, and other Mission officials to develop the Mission's annual audit plan.
- d. **The Management Control Review Committee (MCRC)** serves as a decision making body in situations involving audit issues at Bureaus, Independent Offices and Missions. **The Mission Director monitors the implementation and status of a Mission's annual audit plan.**
- e. **The Mission Activity Manager**
  - Includes all awards in his or her portfolio in the Mission's audit inventory;
  - Ensures that USAID makes adequate funding available for the required audits; and
  - Participates in developing an annual audit plan for the activities which USAID manages.

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f. **The Bureau for Management, Office of the Chief Financial Officer, Audit Performance and Compliance Division (M/CFO/APC)** participates in the development and maintenance of USAID's audit management policies and procedures; follows up on audit recommendations to ensure they are acted upon swiftly and aggressively; and manages and maintains USAID's Consolidated Audit and Compliance System (CACs). See [ADS 591sac, APC Audit Recommendation Final Action \(Closure\) Procedures](#).

g. As established in the [Inspector General Act of 1978, as amended](#) (also see [ADS 590, Audit](#), and [ADS 595, Audit Management Program](#)), the **Office of Inspector General (OIG)**

- Ensures that financial audits meet auditing standards that the Comptroller General of the United States has approved;
- Provides technical advice and support to foreign recipient organizations, independent auditors (including those of host country Supreme Audit Institutions), and others;
- Provides or arranges for additional audit coverage of foreign organizations as requested by USAID;
- Performs desk reviews of financial audit reports to ensure quality and compliance with approved standards;
- Works with recipients of USAID funds and independent auditors (including those of host country Supreme Audit Institutions) to effect appropriate corrective action for inadequate or substandard audit work;
- Conducts quality control reviews of USAID cognizant audits;
- Conducts audits of USAID and U.S. and foreign recipient organizations as it deems necessary; and
- Participates in the development and maintenance of USAID's audit management policies and procedures.

h. **The Bureau for Management, Office of Acquisition and Assistance (M/OAA)** oversees the procurement function for USAID. It implements USAID's policies, regulations, and standards regarding acquisition and assistance functions. These activities include contracts, assistance instruments, and inter-agency agreements.

i. **The Bureau for Management, Office of Acquisition and Assistance, Cost Audit and Support Division (M/OAA/CAS)**

- Identifies and maintains the audit universe of [USAID/W administered awards](#) and ensures that the Agency conducts the required audits of them;
- Assesses risks to determine when the Agency should audit [USAID/W administered awards](#);

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- Identifies the financial audit requirements for and ensures that audits of foreign organizations with **USAID/W administered awards** are conducted;
- Serves as liaison with Federal agencies cognizant for organizations doing business with USAID;
- Provides technical advice and liaison to U.S. recipients, independent auditors, and others;
- Maintains the capability to perform requested pre-award **surveys** and other financial analysis as required;
- Negotiates and finalizes indirect cost rates for U.S.-based organizations; and
- Performs the close-out of all awards administered by USAID/Washington.

### 591.3 POLICY DIRECTIVES AND REQUIRED PROCEDURES

#### 591.3.1 Audits of U.S. Organizations

Effective Date: 12/04/1998

**22 CFR 226, Administration of Assistance Awards to U.S. Nongovernmental Organizations**, provides the uniform administrative requirements for grants and cooperative agreements that USAID awards to U.S. institutions of higher education, hospitals, and other nonprofit organizations; U.S. commercial organizations; and subawards to U.S. organizations under them.

##### 591.3.1.1 U.S. Nonprofit Organizations

Effective Date: 03/18/2010

Awards to U.S. nonprofit organizations must include provisions requiring the organizations to contract with an independent, non-Federal auditor to perform financial audits in accordance with **Office of Management and Budget (OMB) Circular A-133** and collect indirect cost rate information.

U.S. nonprofit organizations that expend \$500,000 or more in Federal awards within their fiscal year must have a single (organization-wide) or program-specific financial audit conducted for that year in accordance with **OMB Circular A-133**. USAID determines that an organization has expended an award when financial activity (e.g., expense transaction or disbursement of funds) related to the award occurs. **OMB Circular A-133** provides guidance towards the determination of the expenditure of Federal awards.

When an auditee expends Federal awards under only one Federal program (excluding research and development), and the Federal program's laws, regulations or grant agreements do not require a financial audit, the auditee may elect to have a program-specific audit conducted in accordance with **OMB Circular A-133**.

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Prime recipients must ensure that their U.S. nonprofit subrecipients expending \$500,000 or more in Federal awards during their fiscal year are also audited in accordance with **OMB Circular A-133**. Additionally, prime recipients must ensure that foreign nonprofit subrecipients adhere to the [ADS 303mab, USAID Standard Provisions for Non-U.S. Nongovernmental Grantees](#), which require annual audits as outlined in paragraph 591.3.2.1 below. USAID's legal relationship is with the prime recipient; therefore, the Agency is not responsible for directly monitoring subrecipients unless otherwise required by law. An independent auditor performing the review of the primary recipient must determine whether the recipient has met the audit and monitoring requirements pertaining to subrecipients.

Financial audits required by **OMB Circular A-133** must be conducted in accordance with auditing standards approved by the Comptroller General of the U.S. (see [Government Auditing Standards](#)).

Financial audits performed in accordance with **OMB Circular A-133** do not limit the authority of USAID and the Office of the Inspector General (OIG) to conduct or arrange for additional audits, reviews, and evaluations.

U.S. nonprofit organizations expending less than \$500,000 in Federal awards within their fiscal year are exempt from **OMB Circular A-133** audit requirements for that year, but they must make records available for review or audit upon request by USAID officials (including OIG), prime recipients, and the Government Accountability Office (GAO).

Recipients must submit **OMB Circular A-133** audit reports to the Federal Audit Clearinghouse within the earlier of 30 days after receipt of the auditor's report or nine months after the end of the period audited. Recipients must also submit the reports to the Bureau for Management, Office of Acquisition and Assistance, Cost, Audit and Support Division (M/OAA/CAS), when requested to do so by M/OAA or the OIG. M/OAA/CAS must use the information that the audit reports provide to negotiate indirect cost rate agreements.

### **591.3.1.2 U.S. For-Profit Organizations**

Effective Date: 07/31/2012

At least annually, M/OAA/CAS must assess risks associated with all U.S. for-profit organizations performing under direct contracts, grants, cooperative agreements, cost-reimbursable host country contracts, and subcontracts to determine when the organizations should be audited. M/OAA/CAS must share the results of the risk assessments with the Office of Inspector General (OIG).

Generally, the cognizant U.S. audit agency or an independent public accountant conducts audits of for-profit organizations. The auditors must perform their work upon receipt of the final incurred cost submission from the for-profit organization. The

auditors must examine the direct and indirect costs incurred under the awards to determine the allowable direct costs and recommend the indirect cost rates.

Normally, per [FAR 42.101](#), the Defense Contract Audit Agency (DCAA) is the Government audit agency for contractors other than educational institutions and nonprofit organizations. Accordingly, the Memorandum of Understanding between the OIG and the DCAA states that DCAA will audit U.S. for-profit firms for which USAID is cognizant. When DCAA cannot be responsive to USAID's needs for an audit, **M/OAA/CAS will contract with a non-Federal public accountant to perform the audit.**

Audits must be performed in accordance with a specific scope of work. In particular, an independent auditor is only legally accountable for the requirements contained in the scope of work.

For annual incurred cost audits, the contractor must provide a final incurred cost submission to M/OAA/CAS reflecting actual costs incurred during the year. M/OAA/CAS will then forward the incurred cost submission and an audit request to DCAA with a copy to the OIG. The OIG will provide DCAA with the billing number necessary to initiate the audit. The OIG also must ensure that M/OAA/CAS receives a copy of the audit report.

Annual incurred cost audits of non-USAID cognizant, for-profit contractors are the responsibility of the cognizant agency.

### **591.3.2 Audits of Foreign Organizations and Host Government Entities**

#### **591.3.2.1 Foreign Organizations**

**Effective Date: 07/31/2012**

Foreign organizations receiving USAID-funded awards must be audited in accordance with the Office of Inspector General (OIG)'s [ADS 591maa, Guidelines for Financial Audits Contracted by Foreign Recipients](#).

Audits performed by independent audit firms or by a government's Supreme Audit Institution must be in accordance with auditing standards approved by the Comptroller General of the United States.

- a. Foreign nonprofit organizations, host governments, and subrecipients that expend \$300,000 or more in USAID awards (i.e., organizations that receive USAID funds either directly or through a prime contractor or recipient) during their fiscal year, must have an annual audit conducted of those funds in accordance with the **Guidelines for Financial Audits Contracted by Foreign Recipients**.
- b. Foreign recipients must adhere to the [ADS 303mab, USAID Standard Provisions for Non-U.S. Nongovernmental Grantees](#), which notifies recipients' of their responsibility to monitor their subrecipients. Therefore, a foreign prime

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recipient must impose the **Guidelines for Financial Audits Contracted by Foreign Recipients** on their non-U.S. subrecipients. A foreign recipient's U.S. nonprofit subrecipients are covered by the requirements of [OMB Circular A-133](#), but the prime recipient must still monitor these subrecipients. USAID's legal relationship is with the prime recipient and the Agency is not responsible for directly monitoring subrecipients, unless otherwise required by law.

- c. Foreign nonprofit organizations and host governments expending less than \$300,000 in USAID funds during their fiscal year are exempt from the audit requirements. Although the laws and the regulations do not require a financial audit, Missions are still responsible for ensuring accountability for these USAID funds. As such, Missions may use the [ADS 591sab, Recipient Control Environment Assessment Checklist](#) to determine the level of monitoring necessary for these organizations in their use of U.S. foreign development aid. **If the Mission determines that a financial audit is necessary, the Mission must submit the resulting audit report to the cognizant RIG office for review and issuance in accordance with the requirements for recipient-contracted or agency-contracted audits, whichever is applicable.** Foreign recipients must make records available upon request by USAID officials, prime recipients, or the GAO.
  - d. The CO or AO and Missions must ensure that the responsible RIG receives audits of foreign prime recipients and contractors conducted in accordance with this section for desk review within nine months after the end of the fiscal year in which the expenditures were incurred. The RIG will establish recommendations for action, if appropriate, and provide copies of the audit reports to the responsible AO/CO; the M/CFO/APC; and M/OAA/CAS.
- Subrecipients must submit copies of their audits to the prime recipient for the auditor's review as part of the prime's annual audit. If the auditor determines that the subrecipient is not performing audits or that the audits are deficient or defective, the auditor must include a recommendation in the prime's audit report to have the subrecipient's audits performed or the deficient or defective issues corrected.
- e. If a Mission determines that the capability of nonprofit organizations and host governments to conduct a financial audit in accordance with the required standards is not available locally, and timely and economical audit services are not available through other means, the Mission must conduct a financial review that, to the maximum extent possible, meets the requirements of the **Guidelines for Financial Audits Contracted by Foreign Recipients**. Where it involves host government organizations, the Mission also has the option of requesting that the RIG perform or supervise the audits, which the RIG may do at its discretion.
  - f. At least annually, Missions must assess risk and determine whether to conduct financial audits of foreign for-profit recipients. Missions must share the results of these risk assessments with the RIG.

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Generally, the DCAA or an independent public accountant will perform the audit of a foreign for-profit recipient. This audit is done in accordance with the specific scope of work that the Mission prepared and the RIG approved. The Federal cognizant audit agency or the independent public accountant must perform the audit upon receipt of the final incurred cost submission from the recipient, and must audit the direct and indirect costs incurred under the awards to determine the allowable direct costs and recommend the indirect cost rates.

- g. Fixed price contracts and fixed obligation grants are not subject to the annual audit requirements of this section.
- h. The cognizant RIG must provide technical assistance to all foreign organizations and their auditors regarding the recipient-contracted audit requirements, including assistance towards developing scopes of work for audits and approval of the audit contracts.
- i. M/OAA/CAS must develop and maintain a consolidated audit inventory of foreign organizations receiving Washington-administered awards. This consolidated audit inventory will be maintained in USAID's Audit Tracking Database system.

#### **591.3.2.2 Host Country-Owned Local Currency**

Effective Date: 03/18/2010

Local currency special accounts must be audited periodically. The audits must be professionally executed in accordance with generally accepted auditing standards and accounting principles either prescribed by the host country's laws or adopted by the host country's public accountants or associations of public accountants, together with generally accepted international auditing standards, where feasible.

Missions must discuss with the host government the requirements for auditing local currency special accounts. USAID's assistance objective agreements must contain specific language concerning the responsibilities, frequency, and funding for audits of these accounts. Importantly, the assistance objective agreements must indicate that USAID audit rights cannot be subordinated or infringed by arrangements for host country or independent audits.

The [ADS 591saa, Financial Audit Requirements Chart](#) contains summary information on the above sections in table format.

#### **591.3.3 Other Audits and Surveys**

##### **591.3.3.1 Pre-Award Audits and Surveys**

Effective Date: 07/31/2012

The CO or AO determines whether pre-award audits or surveys of U.S. organizations

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will be necessary. These pre-award audits and surveys are conducted by the cognizant Federal audit agency, non-Federal resources, or other Federal auditors. The Bureau for Management, Office of Acquisition and Assistance, Cost, Audit and Support Division (M/OAA/CAS) direct-hire staff may conduct pre-award surveys and other financial reviews, but not pre-award audits.

The CO request a pre-award audit or survey before negotiating a contract or modification for a proposal in excess of \$500,000, unless the CO considers the information available sufficient to determine the reasonableness of the proposal or the financial responsibility of the offeror. In the case of contracts or modifications for proposals worth less than \$500,000, the CO may request pre-award audits at his or her discretion.

The AO must request a pre-award audit or survey for grants if the prospective recipient, whether foreign or U.S., has not received a Federal award in the last five years or if the AO or Agreement Officer's Representative is uncertain about the recipient's capacity to perform technically or financially.

In the case of all foreign organizations' pricing proposals whether for a contract, modification or grant, Federal or non-Federal auditors contracted by the Regional Inspector Generals (RIGs) or by the Bureaus and Missions, in consultation with the RIGs and OIG's Office of Audit Financial Audit Division, must conduct pre-award audits of them. A pre-award audit is required before negotiating a contract or modification for a proposal worth in excess of \$500,000, when cost or pricing data are required. A pre-award audit is required for grants if the prospective recipient has not received a Federal award in the last five years or if the AO or Agreement Officer's Technical Representative is uncertain about the recipient's capacity to perform technically or financially.

#### **591.3.3.2 Close-Out Audits**

Effective Date: 07/30/2012

\*As a general rule, annual incurred cost audits fulfill the close-out audit requirement for U.S. and foreign for-profit organizations. [OMB Circular A-133](#) annual audits fulfill the close-out audit requirement for U.S. nonprofit organizations, and annual audits in accordance with the [Guidelines for Financial Audits Contracted by Foreign Recipients](#) fulfill the close-out audit requirement for foreign nonprofit organizations. However, for the year in which an award concludes, the organization's required annual audit must include the Guidelines' close-out audit procedures in its scope.

For organizations not requiring an annual audit for the final performance period of an award, a close-out audit is not required. However, the CO/AO may perform a risk assessment to determine whether a close-out audit is necessary in accordance with [ADS 302sat, Guidance on Closeout Procedures for A&A Awards](#), a reference for ADS 302 and 303.

If a U.S. organization requires a close-out audit, M/OAA/CAS, must include the close-out audit in the next regularly scheduled **A-133** audit of the recipient. If another Federal organization is cognizant, M/OAA/CAS must ask that organization's auditors to include the close-out in the recipient's next regularly scheduled **A-133** audit.

If the AO or CO determines a close-out audit is necessary for a foreign organization but a close-out audit cannot be included as part of an annual audit as described in this section above, the close-out audit may be either:

- (1) Contracted out by the contracting or agreement officer and monitored by the the cognizant Regional Inspector General, or
- (2) Contracted out by the foreign organization in accordance with the **Guidelines for Financial Audits Contracted by Foreign Recipients**.

The CO or AO must not close-out an award until USAID has taken final action on all audit recommendations. (See [OMB Circular A-133](#) and [Guidelines for Financial Audits Contracted by Foreign Recipients](#))

### **591.3.3.3 Contract Termination Claims**

Effective Date: 01/14/2002

When the U.S. Government terminates a contract for its convenience, the contractor submits a settlement proposal to the CO. Upon request by the CO, M/OAA/CAS must coordinate an audit or perform a desk review of the proposal to determine its reasonableness and to prepare specific data for use in negotiating or determining a settlement. USAID must use these evaluations to negotiate a settlement or to issue a unilateral determination. COs are responsible for ensuring that settlements are properly justified, documented, and promptly executed.

### **591.3.4 Audit Planning and Monitoring**

#### **591.3.4.1 U.S. Contractors and Recipients**

Effective Date: 07/31/2012

M/OAA/CAS, must ensure that required financial audits are conducted on U.S. contractors and recipients. M/OAA/CAS must maintain an inventory on all U.S. contractors and recipients, and ensure that audits include all direct and indirect costs.

Missions must include all awards with U.S. contractors and recipients in their audit inventories, including fixed price contracts, fixed obligation grants, and cash transfer and non-project assistance awards; and confirm that they are in the M/OAA/CAS audit inventory. Do not include subrecipient agreements in the audit inventory or annual audit plan.

M/OAA/CAS and the Missions will use the Single Audit Database to monitor and track their audit inventories.

The Office of Inspector General, Office of Audits, Financial Audits Division, must coordinate requests for audit support with the cognizant audit organization and keep the Mission, Bureau, or Independent Office informed.

#### **591.3.4.2 Foreign Contractors and Recipients**

Effective Date: 07/31/2012

M/OAA/CAS, must maintain an inventory of foreign organizations receiving Washington administered contracts or grants issued by M/OAA, including those in non-presence countries, and also ensure that the required annual financial audits of these organizations are conducted.

Central and Regional Bureaus must maintain an inventory of foreign organizations receiving Washington administered contracts or grants not issued by M/OAA, including those in non-presence countries, and ensure that these organizations are included in the audit inventory maintained by M/OAA/CAS.

**Missions** must ensure that required financial audits are conducted of foreign nonprofit and for-profit organizations, host government entities (including any Mission-funded activities in non-presence countries), and local currency special accounts. For use in determining audit requirements, Missions must maintain an inventory of all contracts, grants, and cooperative agreements, including cash transfer and non-project assistance awards, awards financed with host country-owned local currency, and activities in non-presence countries. Do not include organizations that are only subrecipients in this inventory or in the annual audit plan.

Missions must include the following information in the inventory listing:

- Contractor or recipient name;
- Type of organization (e.g., for-profit);
- Award number, amount in U.S. dollars, and start and completion dates;
- Prior audits and periods covered;
- Receipt date of prior required audits;
- Dates for planned audits; and
- Reasons for not including recipient in the annual audit plan, if applicable.

Missions must develop an annual audit plan that completely covers direct awards to foreign recipients. The Audit Management Officer must coordinate with the appropriate activity managers in developing the Mission's inventory and audit plan. The Mission

must provide copies of these documents to the cognizant RIG no later than November 30 of the fiscal year covered by the plan.

Although some activities in non-presence countries, awards financed with host country-owned local currency and cash transfer and non-project assistance awards may not be subject to audit, USAID must always include them in the inventory and consider them for inclusion in the annual audit plan. The Mission Controller is responsible for determining, (1) on a case-by-case basis, the feasibility of conducting audits on these awards; and, (2) the level of audit, if required, necessary to ensure appropriate accountability for these awards. The [ADS 591sab, Recipient Control Environment Assessment Checklist](#) can assist the Controller in making these determinations.

### **591.3.5 Audit Funding**

Effective Date: 07/31/2012

USAID determines funding for financial audits by the nature of the audit and the organization requiring the audit.

- a. **U.S. for-profit organizations:** M/OAA/CAS is required to determine the funds needed for financial audits of U.S. for-profit organizations performed by other Federal agencies, such as the DCAA, or by independent public accountants and to submit a budget request to the Bureau for Management, Office of Management Policy, Budget, and Performance (M/MPBP).
- b. **U.S. nonprofit organizations:** The recipient organization normally funds the financial audit initially, with USAID paying its fair share, either as a direct or indirect cost. The contract/grant officer will determine if the cost of the audit is an allowable direct or indirect expense based on the applicable cost standards.
- c. **Special audit requests:** The cognizant Mission or Bureau generally funds special audit requests initiated because of specific concerns about a contractor or recipient.
- d. **Foreign Non-profit organizations and host government entities:** The recipient organization normally funds the financial audit initially, with USAID paying its fair share, either as a direct or indirect cost. The AO officer will determine if the cost of the audit is an allowable direct or indirect expense based on the applicable cost standards. USAID may perform audits of host government recipients and subrecipients using program funds or other resources at its discretion.
- e. **Local currency accounts:** Host country-owned local currency is the preferred source of funding for audits of local currency special accounts. While less preferable, USAID may use appropriated dollar program funds for these audits. The Mission and the host government must agree on the funding source for an audit of a local currency account, and the program agreement must explicitly state the funding source.

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- f. **Reimbursement to cognizant agencies:** USAID must reimburse cognizant Federal audit agencies for services rendered under formal or informal cross-servicing arrangements. The DCAA establishes the hourly rates for this type of audit work. **M/OAA/CAS must ensure that sufficient funds are available before scheduling cross-servicing audits.**

### **591.3.6 USAID Audit Rights**

Effective Date: 01/14/2002

USAID reserves the right to audit all aspects of program implementation, including contracts, grants, and cooperative agreements financed by the Agency. In addition, a Mission has the right to request an audit of a subrecipient if the Mission determines that the potential for waste or fraud exists within the subagreement. Missions must coordinate such audits with the responsible prime recipient.

USAID will exercise its audit rights by conducting audits with its own staff through the OIG; by requesting that other Federal agencies, such as the DCAA, conduct audits; or, by contracting with an independent audit firm or equivalent to provide audit services.

Regardless of the scope of the audit requirements, USAID retains the right to conduct a financial review, require an audit, or otherwise ensure adequate accountability of recipient organizations. Any additional financial reviews or audits must build upon the work already performed by the other auditors. USAID agreements must include the appropriate USAID standard provisions retaining the right to conduct a financial audit whenever deemed necessary and otherwise ensure adequate accountability of organizations expending USAID funds.

The OIG retains the authority to perform or supervise audits when requested to do so by the Agency or at its own discretion under the Agency-contracted audit program.

### **591.3.7 Auditor Access to Recipient Records**

Effective Date: 05/13/1996

The Comptroller General of the United States, the USAID Office of Inspector General, and any other duly authorized representative auditor must have access to all pertinent books, documents, and records of recipients and subrecipients in order to perform audits and examinations, and to make excerpts, photocopies, and transcripts.

### **591.3.8 Non-compliance with Audit Requirements**

Effective Date: 05/13/1996

In case of a recipient's continued inability or unwillingness to have an audit performed in accordance with the terms of established provisions, USAID must consider appropriate sanctions, which may include the suspension of all or a percentage of financial disbursements until the audit is satisfactorily completed.

*Text highlighted in yellow indicates that the adjacent material is new or substantively revised.*

**591.3.9 Reporting Restrictions**

Effective Date: 05/13/1996

Under [5 U.S.C. 552\(b\) \(4\)](#), the [Freedom of Information Act \(FOIA\)](#) does not apply to trade secrets and commercial or financial information which are obtained from a person and are privileged or confidential. Proprietary financial information contained in audit reports is therefore exempt from FOIA; moreover, its disclosure could constitute a crime under [18 U.S.C. 1905](#). The following statement must appear on the report cover or face sheet of each report containing proprietary financial information: "Financial information contained in this report may be privileged. The restrictions of **18 U.S.C. 1905** must be considered before any information is released to the public."

**591.3.10 Review and Issuance of Audit Reports**

Effective Date: 01/14/2002

OIG must conduct desk reviews of all financial audit reports on prime U.S. and foreign organizations prior to the issuance of these reports. The OIG does not review and issue audits of subrecipients unless an audit was performed at the request of USAID due to a determination that the potential for waste or fraud exists.

Following the requisite desk review, the cognizant OIG office prepares a memorandum that summarizes any findings and recommendations identified in the audits for Agency tracking and action. The memorandum must either clearly identify monetary and procedural recommendations or state that there are no recommendations.

Furthermore, the memorandum must identify monetary recommendations as questioned costs (ineligible or unsupported) or funds to be put to better use. The OIG will provide a copy of the memorandum to the cognizant action office and the Bureau for Management, Office of the Chief Financial Officer, Audit Performance and Compliance Division.

Additionally, the OIG must conduct quality control reviews of selected financial audits to ensure that they were performed in accordance with [OMB Circular A-133](#) or the [Guidelines for Financial Audits Contracted by Foreign Recipients](#), as applicable. The OIG must notify the responsible Bureau, Independent Office or Mission; recipient; and non-Federal auditor when an audit does not meet the required standards. The OIG will provide assistance to non-Federal auditors to help correct such deficiencies. USAID must withhold final payment for any audit work the OIG determines to be substandard until the auditor takes acceptable corrective action.

**591.4 MANDATORY REFERENCES****591.4.1 External Mandatory References**

Effective Date: 11/10/2005

- a. [18 U.S.C. 1905, Crimes and Criminal Procedure, Disclosure of confidential information generally](#)

*Text highlighted in yellow indicates that the adjacent material is new or substantively revised.*



- b. [22 CFR 226, Administration of Assistance Awards to U.S. Nongovernmental Organizations](#)
- c. [FAR 42.101](#)
- d. [Government Auditing Standards](#)
- e. [Inspector General Act of 1978, as amended](#)
- f. [OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations](#)

**591.4.2 Internal Mandatory References**

Effective Date: 03/18/2010

- a. [ADS 303maa, Mandatory Standard Provisions for U.S. Nongovernmental Organizations](#)
- b. [ADS 303mab, Mandatory Standard Provisions for Non-U.S. Nongovernmental Organizations](#)
- c. [ADS 590, Audit](#)
- d. [ADS 591maa, Guidelines for Financial Audits Contracted by Foreign Recipients](#)
- e. [ADS 595, Audit Management Program](#)

**591.5 ADDITIONAL HELP**

Effective Date: 03/18/2010

- a. [ADS 302sat, Guidance on Closeout Procedures for A&A Awards](#)
- b. [ADS 591saa, Financial Audit Requirements Chart](#)
- c. [ADS 591sab, Recipient Control Environment Assessment Checklist](#)
- d. [ADS 591sac, Audit Recommendation Final Action \(Closure\) Procedures](#)

**591.6 DEFINITIONS**

Effective Date: 07/31/2012

**activity manager**

Member of an assistance objective team or sub-team, who is responsible for the day-to-day management of one or more specific activities. The Activity Manager is selected by the AO team, and may or may not also have the delegated authorities of a Contracting Officer's Representative/Agreement Officer's Representative. [See Contracting Officer's

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Representative (COR) and Agreement Officer's Representative (AOR).] (Chapters [200](#), [201](#), [202](#), [203](#), 591, [592](#))

### **Agency-contracted financial audit**

An audit of specific USAID-funded grants or contracts where the Office of Inspector General (OIG) manages non-Federal auditors and issues the resulting audit report. Non-Federal auditors are **selected from the list of CPA firms previously approved by the RIG and contracted by either USAID or the OIG.** (Chapter 591)

### **Agreement Officer's Representative (AOR)**

The individual who performs functions that is designated by the Agreement Officer (AO), or who policy or regulation specifically designates as part of assistance administration. (Chapters 591, [592](#))

### **Audit Management Officer (AMO)**

The individual designated to coordinate and monitor the overall audit program at the Mission, Bureau, or Independent Office level. (Chapters 591, [592](#), [595](#))

### **audit inventory**

A listing of all active awards of a USAID Mission used to identify which awards require an annual audit to be included in the Mission's annual audit plan.

### **audit plan**

An annual plan developed by USAID Missions which outlines audit requirements for all foreign contractors and recipients. (Chapter 591)

### **audit report**

The completed report of an auditor containing the final findings, recommendations, and, to the extent possible, comments and actions taken or planned by the management on the audit. Audit reports include those conducted by the Office of Inspector General, independent public accountants, Supreme Audit Institutions, and other Government agencies such as the Defense Contract Audit Agency (DCAA) and the U.S. Government Accountability Office (GAO). (Chapters 591, [592](#), [595](#))

### **close-out audit**

The final audit conducted upon completion or termination of a cost-reimbursable, time and materials type contract; grant activities; or a cooperative agreement. (Chapter 591)

### **cognizant agency**

The Government agency with primary audit responsibility for a particular contractor or recipient. (Chapter 591)

### **Contracting Officer's Representative (COR)**

The individual who performs functions designated by the Contracting Officer (CO), or who policy or regulation specifically designates as part of contract administration. (Chapters 591, [592](#))

*Text highlighted in yellow indicates that the adjacent material is new or substantively revised.*

**desk review**

A limited review of a financial audit report, performed to determine whether the report contains all the required elements and appears to be accurate and logical. (Chapters [590](#), 591, [595](#))

**final action**

The completion of all actions that USAID management has concluded are necessary with respect to the findings and recommendations of an audit report. (Chapters 591, [595](#))

**financial audit**

An audit to assess whether a contractor, recipient, or host government has accounted for and used USAID funds as intended, and in compliance with applicable laws and regulations. (Chapters 591, [595](#))

**financial review**

A review of a USAID-funded organization's financial policies, systems, controls, and procedures. This review is not conducted in accordance with standards approved by the Comptroller General of the U.S. (Chapter 591)

**grant**

A legal instrument used to transfer money, property, services, or anything of value to a recipient in order to accomplish a public purpose of support or stimulation authorized by Federal statute. Substantial USAID involvement otherwise in the public purpose or stimulation is not anticipated. (Chapters [304](#), 591, [595](#))

**incurred cost audit**

An annual audit of costs incurred under cost reimbursable contracts, conducted to determine allowability, allocability, and reasonableness of expenses. This audit is conducted in accordance with standards approved by the Comptroller General of the U.S. (Chapter 591)

**incurred cost submission**

A submission of annual costs incurred under a cost reimbursable contract. It is due 90 days after the close of the contractor's fiscal year. The submission is the basis for the incurred cost audit. The Federal Acquisition Regulation's "Allowable Cost and Payment" clause requires the submission. (Chapter 591)

**Management Control Review Committee (MCRC)**

A group of senior officials at the Mission, Bureau, or Independent Office level who provide oversight and assistance for the management control program and audit management issues. (Chapters 591, [595](#), [596](#))

**non-Federal auditor**

A Certified Public Accountant (CPA) (or equivalent) operating as a sole practitioner or a CPA (or equivalent) firm. (Chapter 591)

### **nonprofit organization**

Any corporation, trust, association, cooperative, or other organization that is operated primarily for charitable, educational, scientific, or other similar purposes; is not organized for profit; and, uses its net proceeds to maintain, improve, or expand its operations. (Chapter 591)

### **pre-award audit**

An advisory audit conducted on pending awards to determine the reasonableness, allowability, and allocability of proposed costs. This audit is conducted in accordance with standards approved by the Comptroller General of the U.S. (Chapter 591)

### **pre-award survey**

An evaluation of a prospective recipient's ability to perform under a Government sponsored agreement. Such surveys are normally limited to assessing the adequacy of a potential recipient's accounting system in accumulating cost information or financial capability to perform under a prospective award. Surveys may also encompass technical, production, and quality assurance considerations. This survey is not conducted in accordance with standards approved by the Comptroller General of the U.S. (Chapter 591)

### **procedural recommendation**

A type of recommendation that involves non-monetary corrective actions. (Chapters 591, [595](#))

### **quality control review**

A review of the working papers supporting an audit report prepared by non-Federal auditors to ensure that the work complies with auditing standards approved by the Comptroller General of the U.S. (Chapters [590](#), 591)

### **questioned costs**

Costs determined to be potentially unallowable. It includes *ineligible costs* (violation of a law, regulation, contract, grant, cooperative agreement, etc., or an unnecessary or unreasonable expenditure of funds) and *unsupported costs* (those not supported by adequate documentation at the time of an audit). (Chapters 591, [595](#))

### **recipient**

An organization receiving financial assistance under a grant or cooperative agreement directly from USAID to carry out a program. The term includes public and private institutions of higher education, public and private hospitals, and other quasi-public or private nonprofit organizations. In some circumstances, the term applies also to profit-making organizations performing work under a grant or cooperative agreement relationship with USAID. (Chapters 591, [636](#))

**recipient-contracted financial audit**

A periodic audit of a nonprofit organization receiving USAID funding where the organization hires non-Federal auditors **from the list of CPA firms previously approved by the RIG.** The Office of the Inspector General is responsible for maintaining quality control over the audit field work and report. Such audits of U.S.-based organizations follow the rules and procedures of the Office of Management and Budget Circular A-133 (with the result generally called “A-133 audits”), while audits of foreign organization follow the rules and procedures of USAID’s “Guidelines for Financial Audits Contracted by Foreign Recipients” (with the resulting work generally called “recipient-contracted audits”). (Chapter 591)

**subrecipient**

Any person or Government office, establishment, or nonprofit or for-profit organization that receives financial assistance to carry out a Government program through a primary recipient or other subrecipient. (Chapter 591)

**Supreme Audit Institution (SAI)**

A foreign country’s principal government audit agency. (Chapters [590](#), 591)

**termination claims**

Claims for compensation of costs incurred when a contract is terminated for default or the convenience of the Government. (Chapter 591)

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